

# HOUSE BILL REPORT

## HB 1790

---

**As Reported by House Committee On:**  
Community & Economic Development & Trade

**Title:** An act relating to the distribution of funds from excise tax collections on the sale of real property for jobs, economic development, and local capital projects.

**Brief Description:** Providing for the distribution of funds used for jobs, economic development, and local capital projects.

**Sponsors:** Representatives Ericks, Newhouse, Linville, Armstrong, Simpson, Haler, Takko, Hunt, McCoy, Hailey, Grant, Buri, Hinkle, Kessler, Alexander, P. Sullivan, Eddy, Curtis, VanDeWege, Conway, O'Brien, Green, Goodman, Morrell, Lantz and Moeller.

**Brief History:**

**Committee Activity:**

Community & Economic Development & Trade: 2/12/07, 2/21/07 [DPS].

**Brief Summary of Substitute Bill**

- Provides a permanent revenue source for the Community Economic Revitalization Board (CERB) by allocating 3.3 percent of the state Real Estate Excise Tax receipts to the Public Facilities Construction Loan Revolving Account.
- Updates current CERB statutes.
- Expires the Job Development Fund on June 30, 2009.

---

**HOUSE COMMITTEE ON COMMUNITY & ECONOMIC DEVELOPMENT & TRADE**

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Kenney, Chair; Pettigrew, Vice Chair; Bailey, Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Chase, Darneille, Haler and Rolfes.

**Staff:** Tracey Taylor (786-7196).

**Background:**

---

*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

Created in 1982 by the Legislature, the Community Economic Revitalization Board (CERB) provides low-interest loans (and, in unique circumstances, grants) to help finance local public economic development infrastructure necessary to develop or retain stable business and industrial activity.

These improvements include industrial water, general-purpose industrial buildings and port facilities, sanitary and storm sewers, industrial wastewater treatment facilities, railroad spurs, telecommunications, electricity, natural gas, roads, and bridges. The public projects are linked to targeted business sectors in manufacturing, food processing, assembly, warehousing, industrial distribution, advanced technology, research and development, and recycling facilities.

Eligible applicants to the CERB Traditional and Rural Programs include port districts, counties, cities, towns, special purpose districts, and federally recognized Indian tribes.

The Traditional Program is available statewide and provides funding assistance to economically disadvantaged communities for public facilities to foster the creation and/or retention of jobs by industry. The Traditional Program requires an eligible private sector business at the time of the application. The applicant and business must provide evidence that a private development or expansion is ready to occur, and that the private development is contingent upon the approval of the CERB funds.

The CERB's Rural Program (Program) is targeted to rural counties and rural natural resource areas affected by downturns in the timber and commercial salmon industries. The Program funds economic development infrastructure for prospective economic development projects when feasibility is demonstrated. Tourism development projects may be supported in rural areas. The Program also funds project-specific feasibility studies, planning and predevelopment activities to help evaluate high priority economic development projects that will assist communities in meeting their economic development goals.

#### Funding for the CERB's Traditional and Rural Programs for FY 2003-2007

- In 2002, the Legislature authorized the redirection of annual repayments of loans issued under the Public Works Trust Funds' Timber and Natural Resources loan program to the CERB. This fund source ends at the conclusion of Fiscal Year 2007.
- Beginning in FY 2005, the Legislature authorized the CERB to retain the interest earned on the CERB's revolving loan fund.
- Beginning in FY 2006, interest earned by the Public Works Assistance Account was transferred to the CERB.
- Existing CERB loan repayments to the CERB revolving account are appropriated for projects each fiscal year.

#### Real Estate Excise Tax

The state real estate excise tax (REET) is imposed on the full selling price of real estate and is paid by the seller. The current state REET rate is 1.28 percent. The majority of the tax revenue goes to the State General Fund. Counties retain 1.3 percent to cover administrative costs associated in collecting the tax. In addition, 6.1 percent is dedicated to the Public Works

Assistance Account and 1.6 percent is dedicated to the City/County Assistance Fund. In 2006, the total REET revenue to the state was over \$1 billion.

---

**Summary of Substitute Bill:**

A portion of the state's REET revenues is dedicated to the CERB as a permanent source of funding. Beginning July 1, 2009, 3.3 percent of the REET revenue is allocated to the Public Facilities Construction Loan Revolving Account.

Capital projects in counties and cities that plan under the Growth Management Act that are funded by the local real estate excise tax available in those jurisdictions may be used for the same infrastructure purposes in both the first and second quarters.

No more than 25 percent of financial assistance approved by CERB may consist of grants. Financial assistance may be provided for the acquisition of real property but not for projects located outside the jurisdiction of the applicant.

Applicants for CERB funds must demonstrate convincing evidence that a specific private development, consistent with economic development commission standards, is ready to occur. Applicants in rural counties do not need to show that a specific private development is ready to occur but must demonstrate project feasibility and that the project is part of a local economic development plan. Tourism projects in rural counties are also eligible for CERB funding.

Grants of up to \$50,000 are allowed for plans, studies, and analyses related to a project. Applicants must demonstrate approval from a local jurisdiction, support from a local associate development organization, local participation, and local matching funds.

In evaluating applications for funds, the CERB will consider wages and health plans associated with the project and accommodations for growth.

Limitations on financial assistance in Pierce, King, and Snohomish counties are eliminated. The CERB is to provide 60 percent of available funds each biennium to urban counties and 40 percent of available funds to rural counties.

The Job Development Fund Act expires June 30, 2009, and the requirement that the Joint Legislative Audit and Review Committee study the job development fund is repealed.

A variety of statutory provisions related to CERB are repealed. Obsolete references are removed.

**Substitute Bill Compared to Original Bill:**

The substitute bill updates the CERB statutes to reflect their current programs. In addition, the substitute expires the Job Development Fund (JDF) on June 30, 2009, and eliminates the funding allocation to the JDF in the original bill. The CERB program is opened up to both

rural and urban counties and provides that 60 percent of CERB funding shall go to urban counties.

The substitute also eliminates the authorization for local jurisdictions to use local REET revenues to fund housing projects.

---

**Appropriation:** None.

**Fiscal Note:** Available on original bill.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of session in which bill is passed, except for sections 2 through 10 and 15, relating to the CERB, which takes effect July 1, 2009.

**Staff Summary of Public Testimony:**

(In support) The CERB is the primary funding source for local governments to access financing to assist in private development. This bill incorporates the best of the CERB and the JDF. The CERB is a highly successful program that has been focused on rural Washington. The CERB has provided \$113 million for 232 projects since 1982, leveraging \$190 million in other public sources and \$2.4 billion in private investment. Over 24,000 jobs have been created, not including all the construction jobs.

By eliminating old programs and updating the statutes, this bill now urbanizes CERB, allowing the entire state to benefit from the program. In addition, this bill provides a permanent funding source for the CERB. Funding has been a biennial question and as a result, the CERB has been funded by cobbling together various revenue streams. One of the most significant revenue streams is now ending which would substantially cut the program. In addition, the JDF program is ended after the 2007-09 biennium, thus eliminating any additional raid on the Public Works Trust Fund.

Local governments have a difficult time getting sustained funding for services and development. In addition, local governments are challenged in accounting for the different authorized uses for their first and second quarter local REET revenues. This bill harmonizes the authorized expenditures for the first and second quarters which will provide local jurisdictions with much needed flexibility.

(Opposed) Harmonization of the local REET is bad. The purpose of the local REET is to provide dedicated funding for growth. By allowing local jurisdictions to use the local REET revenues from the first and second quarters for the same types of projects, it will turn into an ATM for local government. In addition, the original bill adds an additional use for the local REET revenues: housing projects. This causes great concern as the money is needed for infrastructure development.

**Persons Testifying:** (In support) Representative Ericks, prime sponsor; Ashley Probart, Association of Washington Cities; Ginger Eagle, Washington Public Ports Association; Julie Murray, Washington Association of Counties; and Jim Rothlin, Port of Chehalis.

(Opposed) Mark Williams, Washington Association of Realtors.

**Persons Signed In To Testify But Not Testifying:** None.